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Annual Report

of

Sinclair Consolidated Oil Corporation

and

Subsidiaries

for the

Year Ended December 31, 1926

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SINCLAIR CONSOLIDATED OIL CORPORATION

45 Nassau Street

To the Shareholders of

New York, N. Y., April 12th, 1927.

SINCLAIR CONSOLIDATED OIL CORPORATION:

Operations during the year 1926 resulted in the largest earnings, before reserves, in the history of your company, and were due in a large measure to the better balanced condition of its activities.

Net earnings from operations amounted to $42,939,509. Deducting from this amount interest and discount of $7,722,622, depreciation, depletion and amortization of $17,568,855 and dividends on preferred stock of $1,408,742, there remained $16,239,290 or $3.60 per share on the common stock as compared with $1.01 per share in 1925.

The following is a comparison of the income accounts for the years 1926 and 1925:

	1926	1925	Increase or *Decrease*
Gross revenue, exclusive of inter-company sales and charges for transportation	$191,737,701	$159,544,216	$32,193,485
Purchases, operating and general expenses, maintenance, insurance, taxes, etc.	148,798,192	130,599,569	18,198,623
Net earnings	$ 42,939,509	$ 28,944,647	$13,994,862
Interest and discount	7,722,622	7,731,734	*9,112*
Income available for surplus and reserves	$ 35,216,887	$ 21,212,913	$14,003,974
Depreciation and other reserves	17,568,855	15,210,120	2,358,735
Income available for dividends	$ 17,648,032	$ 6,002,793	$11,645,239
Preferred dividends paid	1,408,742	1,455.474	*46,732*
Surplus income available for common stock	$ 16,239,290	$ 4,547,319	$11,691,971

The Sinclair Consolidated Oil Corporation in 1926 reduced its funded debt and preferred stock outstanding $5,840,100, reduction of funded debt being $5,197,900 and of preferred stock $642,200.

Expenditures for the development of and additions to properties required to meet the rapid growth of the business included approximately $9,000,000 for the drilling of oil wells and the development of oil and gas leases in the United States; $3,125,000 for additional undeveloped oil and gas leases in the United States; $2,000,000 for new casinghead gasoline plant construction; $1,300,000 for refinery improvements and $10,000,000 for real estate, deep-water terminals, marketing stations and other distributing facilities.

As disclosed by the accompanying statistics, your company's production of crude oil in the United States showed a material increase in 1926, the average net production, after deducting all royalty and partnership oil, being 30,797 barrels daily as compared with 24,818 barrels daily in 1925. The average during the first quarter of 1927 was 44,000 barrels daily.

Unsettled conditions resulted in curtailment of operations in Mexico which was reflected in a decline in Mexican crude oil production.

Production of casinghead gasoline was almost 100% greater than in 1925, this increase being the result of plant additions completed during 1926 in furtherance of the policy of utilizing the gas from oil properties developed. The average daily production in 1926 was 120,480 gallons as compared with 60,640 gallons daily in 1925. The average daily production during the first quarter of 1927 was 144,700 gallons.

Investment in additional marketing facilities resulted in a material increase in the earnings of the marketing department. The full benefits of these additional facilities, however, were not realized in 1926.

Of special importance in 1926 was the successful marketing of a premium gasoline developed by the refinery department in 1925, known as "H. C. GASOLINE." This is a high compression, no-knock gasoline, a pure 100% petroleum product. The high quality of this product is evidenced by its very favorable reception.

Improvements made in your company's refineries represented a relatively small expenditure; nevertheless, they made possible a very substantial increase in operating efficiency, reflected in lower costs and increased capacity.

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Statistics bearing upon operations are given below:

	1926	1925	Increase or *Decrease*
Net crude oil production in U. S. (bbls.)	11,240,799	9,058,709	2,182,090
Net crude oil production in Mexico (bbls.)	2,685,890	4,475,345	*1,789,455*
Net casinghead gasoline production (gals.)	43,974,677	22,134,578	21,840,099
Crude oil run through gasoline and lubricating oil refineries (bbls.)	24,766,326	20,048,306	4,718,020
Crude oil run through asphalt refinery (bbls.)	3,284,729	5,807,013	*2,522,284*
Gasoline sold (gals.)	683,048,593	601,938,164	81,110,429
Oil cargoes transported by tank steamships, exclusive of Cuban inter-coastal shipments and barge deliveries (bbls.)	17,605,032	17,561,024	44,008
Sinclair Pipe Line Company (50% owned)—crude oil deliveries (bbls.)	29,621,997	28,971,931	650,066
Sinclair Crude Oil Purchasing Company (50% owned)— Net amount of crude oil on hand Dec. 31 (bbls.)	34,230,757	38,079,761	*3,849,004*

Sinclair Pipe Line Company (50% owned) reduced its funded debt during the year $2,944,000.

Sinclair Crude Oil Purchasing Company (50% owned) reduced its funded debt during the year $10,522,000.

Throughout the organization there exists an intense loyalty to the Company, and enthusiasm and cooperation of both officers and employees is manifested to a very high degree.

By reason of the higher level of your company's crude oil production in the United States, its increased manufacturing efficiency, the constantly growing demand for its products and its additional and enlarged facilities for distribution, your company is in better position than ever before to meet the present unsettled conditions in the industry which have come about through overproduction of crude oil.

H. F. SINCLAIR

Chairman of the Board of Directors.

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1926

GROSS EARNINGS AND MISCELLANEOUS INCOME, Exclusive of Inter-Company Sales, and Charges for Transportation	$191,737,701.23	
PURCHASES, OPERATING AND GENERAL EXPENSES, MAINTENANCE, INSURANCE, TAXES, ETC.	148,798,191.75	
NET EARNINGS		$42,939,509.48
DEDUCT:		
Interest and Discount	$ 7,722,621.60	
Depreciation, Depletion and Amortization	17,568,855.81	25,291,477.41
NET INCOME FOR THE YEAR		$17,648,032.07

CONSOLIDATED SURPLUS ACCOUNT

BALANCE AT DECEMBER 31, 1925	$ 15,423,645.93	
Adjustments including prior years' Federal Taxes	2,735,703.83	$12,687,942.10
Net Income for the year, as above		17,648,032.07
		$30,335,974.17
Dividends on Preferred Stock		1,408,742.00
BALANCE AT DECEMBER 31, 1926		$28,927,232.17

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SINCLAIR CONSOLIDATED OIL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1926

A S S E T S

REAL ESTATE, OIL AND GAS LEASES, FOREIGN CONCESSIONS, OIL WELLS AND EQUIPMENT, PIPE LINES, STEAMSHIPS, TANK CARS, TERMINALS, REFINERIES, DISTRIBUTING STATIONS AND FACILITIES, ETC.			$354,197,567.49
Less: Reserves for Depreciation, Depletion and Amortization			111,938,149.41
			$242,259,418.08
INVESTMENTS IN OTHER COMPANIES			60,855,058.12
INSURANCE FUNDS—CASH AND SECURITIES			2,376,[illegible]84.89
CURRENT ASSETS:			
Cash in Banks and on Hand		$ 5,726,436.89	
Accounts Receivable	$14,185,188.15		
Notes Receivable	524,126.90		
	$14,709,315.05		
Less: Reserve	294,681.74	14,414,633.31	
Employees' Stock Subscriptions		438,187.50	
Inventories—Crude Oil, Refined Products, Materials and Supplies—at Cost		29,805,545.92	
Advance Payments, Oil, Etc.		167,831.72	
Marketable Securities, at Cost		47,144.15	
Bonds and Stocks of this Company, at Cost		1,968,880.23	52,568,659.72
DEFERRED ITEMS APPLICABLE TO FUTURE OPERATIONS, including Prepaid Insurance and Taxes, Discount and Expense on First Lien Collateral Gold Bonds, etc.			6,757,811.52
			$364,817,232.33

C A P I T A L   A N D   L I A B I L I T I E S

COMMON CAPITAL STOCK:		
Authorized—5,500,000 Shares of no par value		
Outstanding—4,509,480.97 Shares		$204,414,529.26
EARNED SURPLUS		28,927,232.17
Total Common Capital Stock and Surplus represented by 4,509,480.97 Shares of no par value		$233,341,761.43
PREFERRED 8% CUMULATIVE CAPITAL STOCK, outstanding 172,100 Shares of $100.00 each		17,210,000.00
MINORITY STOCKHOLDERS' INTEREST IN SUBSIDIARY COMPANIES		109,790.26
INSURANCE AND MISCELLANEOUS RESERVES, including prior years' Federal Taxes		6,277,471.07
FUNDED DEBT AND PURCHASE MONEY OBLIGATIONS:		
First Lien Collateral Gold Bonds:		
7 % Series A, maturing March 15, 1937	$45,566,500.00	
6½ % Series B, maturing June 1, 1938	23,339,500.00	
6 % Series C, maturing December 1, 1927	12,350,600.00	
National Steel Car Lines Equipment Trust Certificates — Series E — maturing semi-annually to November 15, 1932	4,500,000.00	
Purchase Money Obligations	2,303,184.38	88,059,784.38
CURRENT LIABILITIES:		
Notes Payable	$ 2,000,000.00	
Accounts Payable	14,965,968.54	
Accruals and Miscellaneous	2,852,456.65	19,818,425.19
		$364,817,232.33

AUDITOR'S CERTIFICATE

We have examined the accounting records of the SINCLAIR CONSOLIDATED OIL CORPORATION AND SUBSIDIARIES at December 31, 1926 from which the above Consolidated Balance Sheet and accompanying Statements of Income and Surplus have been prepared.

Investments in other companies include 500,500 shares of class A and 1,500 shares of class B stock of the Mammoth Oil Company acquired in exchange for 250,000 shares of common stock of this Corporation, and Accounts Receivable include an amount of $1,287,410.60 representing the cost of construction of Naval oil terminal facilities at Portsmouth, New Hampshire.

WE HEREBY CERTIFY that, in our opinion and subject to the above items, the foregoing Balance Sheet and accompanying statements of Income and Surplus respectively reflect the true financial position of the Consolidated Companies at December 31, 1926 and the results of their operations for the year then ended.

ARTHUR YOUNG & COMPANY

New York, March 28th, 1927.

Members American Institute of Accountants